

Paper for Allyn Wasley, Acting Chief Executive Officer, Co-operative Bulk Handling Ltd  
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# Co-operative Federation of Victoria Ltd

**Ladies and gentlemen ...**

Thank you for the opportunity to speak about how our Co-operative CBH functions in a global market. I will address this topic through a series of comments on CBH, our current challenges operating in a global market and how we are preparing for the future.

**Introduction: CBH – the company**

For those who don't know a lot about the CBH Group of Companies, a brief overview may be helpful.

Co-operative Bulk Handling was established in 1933. It was the time of the Great Depression and for many there was no money and no jobs and those on the land were 'doing it really tough'.

There was a glut of wheat worldwide that caused the price of grain to drop so far it was barely worth harvesting.

They were terrible times, yet it was largely because of them that CBH came into being as Western Australian farmers looked for ways to reduce their crippling costs, one of which was the outlay on wheat bags. The solution was to develop a cheap and efficient bulk handling system.

Thus the bulk handling co-operative was born – born 70 years ago out of a need to survive “in a global market”.

On April 4, 1933, the trustees of the Wheat Pool of WA and Wesfarmers jointly registered the company with an authorised capital of 100,000 pounds divided into 100,000 shares. Each grain grower-deliverer bought one share – a co-operative system with a revolving capital fund for perpetual and complete user ownership. (*Jumping Forward*)

In November 2001, CBH announced its intention to merge with the Grain Pool WA. It was a decision we made following a period of intense speculation; and at a time of significant change as industry participants positioned themselves in response to deregulation, increased competition and globalisation.

Only three years ago, there were 13 organisations managing the storage, handling and marketing activities of grain in Australia. This figure has now been reduced to five – and will shortly become four following a merger of two eastern states-based organisations.

The decision to merge CBH and Grain Pool was in the face of such changes and driven by our wish and need to create a stronger state-based industry – one that would ensure that our grower-members continued to control their future destiny.

The merger has given us an important link to the whole grain supply chain by adding marketing to our storage and handling role.

Together we employ over 850 full time staff and our annual turnover is over \$900 million. We have net assets of \$600 million with a replacement value of \$3 billion.

We are a true co-operative. We are controlled by our 7,500 grain grower-members and our earnings are retained within the company to provide the capital for the future.

In 2001-02, the grain industry contributed 55 per cent of the gross value of agricultural production to the State. That was a total of \$2.7 billion and that season was not one of the better harvests.

\This huge industry needs the support of massive infrastructure and we have been building this since 1933.

We have 198 receival points across the grainbelt, which with four port terminals at Albany, Esperance, Geraldton and Kwinana gives us a total grain storage capacity of over 16.5 million tonnes.

We'll need every inch of it this year!

In fact we have had to find some creative ways to store grain and in the past the tennis season has been shortened to allow the courts to be used as storage.

**Co-operative v Corporation**

Before I move to the global scene, I'd like to offer a few thoughts about corporate governance in relation to the *Companies Co-operative Act*; identify some challenges of being governed as a co-operative while operating with a corporate philosophy; and then touch on the importance of employing quality people.

The CBH Board has, at its own discretion, chosen to adopt corporate governance standards as applied in *Corporations Act*. Such standards are not – regrettably in my view – provided for in the *Co-operative Act*, which fails to provide the structure or guidance required by a modern organisation operating in a dynamic economy.

Co-operatives are an important form of corporate structure and arguably one that may become increasingly relevant to Australia's business community. However,

modern businesses that operate in increasingly competitive and challenging domestic and global markets need to have supporting and relevant legislation.

Stakeholders, quite rightly, have firm expectations of how companies should conduct their business. Sadly, the *Co-operative Act* no longer reflects or fulfils those expectations.

We at CBH are governed as follows. Grower-members elect nine growers as directors covering 4 zones. They form a Board that nominate a further three non-grower directors, chosen for their specialist expertise.

This co-operative structure has met our needs and those of our grower-members very well for 70 years.

However, the global marketplace in which we operate has changed. It demands that we adopt a strong corporate philosophy with the commercial discipline necessary to operate in the highly competitive international and domestic markets.

The need to be governed as a co-operative and operate under a corporate philosophy produces some challenges.

*I'll explain with two examples:*

**First.** Over 70 years, our members have made an enormous investment and commitment to fixed grain infrastructure and logistics in Western Australia.

In a good year we receive 12 million tonnes in 60 days and export an average of 1 million tonnes a month. To give you an example of what a million tonnes is think of it as, 150,000 trucks stretched from Perth to Sydney and then up to Brisbane.

Also, the harvest is growing. Grain yields have more than doubled in the last 20 years. Currently the five-year average is 1.74 tonnes per hectare and this has been predicted to rise to 2.5 tonnes by 2008. Despite the loss of land to salinity, this could represent a harvest of 17.5 million-tonne.

Storing and handling such volumes presents a huge logistical challenge.

Our co-operative charter requires that we receive all grain delivered to us. This means that we must structure our services and infrastructure to manage whatever our growers 'throw at us'.

If we can't store and transport their grain, growers would quite rightly be highly critical and accuse us of failing to meet their needs.

One of our challenges and difficulties is that, to be sure of being able to handle a big harvest, we have to provide appropriate infrastructure and services that can be underused in a poor to average season. It means that, to some extent, we have to "over-engineer".

This, as you would appreciate, was not an issue in a regulated marketplace. However, in an unregulated environment, it has the potential to expose parts of our business to competition.

Our potential competitors have none of our extensive infrastructure and logistical 'baggage' and could enter at selective locations with selective services, thus winning the most profitable business opportunities. They could also choose to just "put up the gate" when they've had enough.

The notion of such competition has led us to adopt a highly commercial approach to our decision-making, which at times has not been popular with all shareholders.

It was this commercial approach that provided the drive for CBH and Grain Pool to merge. But now, we are confident that with greater control over the supply chain, we are in a far better position to withstand incursions from our competitors.

The **second** example of the challenge we face is our approach to innovation.

To limit our need to "over-engineer", we have continually sought innovative ways to store and handle grain. This has gained us international recognition as a leader in grain storage and handling techniques, which has also benefited others in the Australian grain industry.

And yet, in some ways, we have become the victim of our own success. As we operate in a more competitive environment, we are finding that the innovations we have previously shared with others are now being used against us by our competitors.

### Quality people

Before I look at the global scene, it is important to consider issues facing Co-operatives in attracting and retaining the best people to compete in the global marketplace.

There are many 'pluses' in working for a co-operative and I can certainly attest to this, but there are also some downsides.

While many people can understand and relate to company structures, co-operatives are not so well understood.

A co-operative for some, isn't considered to be a 'sexy' or attractive employer. For one thing, co-operatives have a reputation for being 'low cost' operators and low salary payers.

There is also the trend these days for people to change jobs more frequently and to look at one position solely as a stepping-stone to the next. Undoubtedly, a position in a company with a well-recognised reputation tends to look better on a résumé than a position with co-operative.

Company structures, particularly listed companies, can also offer shares in addition to the traditional salary. All of which creates challenges in attracting, and retaining the best people.

What this means for co-operatives is that we need to work harder to create opportunities and challenges. It also requires the marketing of the co-operative to the broader community in order to raise general levels of awareness.

At CBH, for staff development and retention, we offer enhanced education programs and have established the CBH College in conjunction with the University of Western Australia and the Australian Institute of Management.

We also offer financial bonuses to managers who tackle difficult and risky challenges and succeed; and we link our salary increases to performance reviews.

CBH is in the position where it not only operates in a global market, but also employs specialists from around the world to take our Company forward. Similarly we recognise that our people have skills that would be beneficial to many international organisations.

### **Success in a Global Marketplace**

I move now to look at the challenges of operating in a global market.

Our merger with Grain Pool has enabled us to provide better value along the whole supply chain and to move from operating in a cost-based domestic market to a value-based global market.

CBH is now Australia's leading integrated grain organisation. Western Australia produces up to 40 per cent of the nation's grain, with up to 95 per cent of the West

Australian crop exported to over 20 countries, with major shipments to Japan, South Korea, Indonesia, Iran, Pakistan and China.

While the CBH-Grain Pool merger was strongly supported by our grower-members; initially it created some apprehension among other industry participants.

Prior to the merger, the Grain Pool had been one of 30 marketers who used CBH's storage and handling services. Following the merger, the long-held and carefully managed reputations and corporate positions established by the two respective organisations were, to a degree, disrupted and potentially destabilised.

In addition, Grain Pool had excellent relationships with numerous customers in more than 30 countries – few of whom had any previous dealings or in-depth knowledge of CBH. These customers needed strong assurances that the new CBH Group of Companies would value their existing relationships and arrangements.

The challenge was for all companies within the new CBH Group to retain and enhance their reputation among, customers and markets.

One area where we are demonstrating our dominance in global market place is the export of barley.

The establishment in 2001 of Grain Australia, an alliance formed between ABB (formerly the Australian Barley Board) and the Grain Pool, has provided great marketing leverage and enabled us to maintain a dominant position in world barley markets.

This alliance means that Australian barley producers are not competing against themselves; it has provided significant value to be returned to the grower rather than being lost to the market.

Our merger with Grain Pool has enabled us to link our well-established storage and handling role with the marketing of grain – a single grain chain that creates value through:

- Service;
- Price; and
- Returns

The merger has eliminated extra players along the supply chain, so that we have a marketing edge with our customers, allowing the maximum value to be returned to our grower-members.

## Products

It's worth a quick look at a couple of the grains we handle and market.

- Barley. In WA, barley is the most common crop after wheat. It's main use is in beer, of course, and for Shochu spirit in Japan. It is also used extensively as animal feed, although the quality is significantly less than that used in beer.
- Canola. There is a growing demand for canola oil, especially from Japan, and Australians are increasingly using it as a spread, and in cooking.

Of course, we store and handle wheat, but that is marketed by AWB, which has the single desk.

## Getting a market edge

I turn now to our efforts to get a market edge.

As I mentioned earlier, the merger and the greater control we now have over the supply chain has increased our ability to add value.

Pre-merger CBH's operations were focused very much on cost-reduction. Now, as we combine handling and marketing, the focus has shifted to creating value.

In the first year since the merger, we have added value totalling some \$8 million and our expectations are to increase this to a total of \$38 million within the next two years.

Another critical "plus" from the merger is that we now have greater control over quality. Of all the demands we have to meet, the greatest is the demand to supply grain of high quality.

International competition means increasing pressures on the Australian grains industry from markets that demand grain of a higher quality.

External markets now expect traceability of grain from paddock to ship; and consumers expect their grain to be 'clean and green'.

CBH, Grain Pool and AWB recently wrote collectively to all growers in advance of the upcoming season to highlight the importance of maintaining and increasing grain quality if Western Australia is to continue to compete effectively in world markets.

The letter said that ... "Our clean and green reputation provides a competitive advantage when selling grain in international markets and this directly affects the price that you receive for your grain – your bottom line."

This harvest will see an even greater emphasis on checking the quality of grain delivered to CBH receival points, in order that we safeguard our reputation, and retain our market share.

But our overseas customers are demanding more than good 'clean and green' products. They also demand greater variety. This has led to a larger number of grain segregations – up to 100 – that must remain separated when stored and transported.

Other challenges we face are related to dramatic market fluctuations as the result of seasonal conditions, world demands and every movement in the exchange rate has a big impact.

This year alone, the price of grain dropped by 20 per cent on the back of the rising dollar, with the only saviour for us in the West being increased yields, a factor not available to growers in Queensland and northern New South Wales.

Internationally, competition is very high and there are new players on the scene, such as the Ukraine.

Australian growers are also disadvantaged by some overseas growers being subsidised, notably in the US and Europe.

However, subsidising their growers doesn't prevent the US from attacking Australia's single desk marketing and wanting it traded away as part of any Fair Trade Agreement.

Fluctuations in the timing and volume demands from our international markets also place additional pressures on our already highly complex storage logistics.

The trend is currently towards shipping later rather than in the first six months of the year. This is because more discerning overseas markets are using "just-in-time" inventory systems that lead to grain being sourced throughout the year. We have to store it for them until they want it which can, and does result in, a significant amount of grain from the previous year remaining in the system when the new seasons grain is received.

However, the CBH merger with Grain Pool has helped smooth out the supply chain. We now share the same business objectives and we work closely together on logistics.

On the other hand, AWB has independent business requirements that drive its shipping program; and that translates into a more jerky demand on the supply chain.

So, timing of grain shipping is difficult to manage, but so is volume. It's not just bulk handling any more. Our customers order in a wide variety of quantities, such as container loads or in bags. These might all sound like problems, but there are not really.

The growth of niche opportunities represent the areas of greatest value increase. Connecting our growers through to global opportunities is the focus of our business and our focus on quality is enabling us to sell to the premium ends of the market, thus increasing returns to our growers.

Also, the new merged relationship has provided a stronger connection between grower and the global market; so that both ends of the supply chain now have a far greater understanding and appreciation of each other's needs.

We, and specifically Grain Pool, are working very hard at retaining relationships with our international markets.

We are not a global grain trader. We are a global grain marketer who understands the product we are selling and how it can be used in the business of our global customers.

Such relationships require, time, effort, and money to build and then to manage. Today as I speak as acting chief executive officer, our CEO is currently concluding a two and a half week tour of the Asian region, strengthening our relationships with our premium customers.

We may be close geographically to our markets, but we have to work at understanding their culture, especially the way they expect us to do business with them.

We encourage their visits to Western Australia and arrange regular tours of our facilities and growers' farms.

### Being a co-operative in a global market

So, how is CBH handling our new external focus and marketing ourselves globally and what advantages can we gain from our co-operative structure?

Initially, following the merger, we had some concern that being a co-operative in the international grain market could be an inhibitor, but the reality is that our premium markets have seen it as a positive move.

Among the virtues of the merger that we are emphasising to our markets are the following:

1. The person who grows the grain that the customer is buying is also a shareholder of the company that is handling it and presenting it to the international market.
2. Quality, efficiency, service and value are enhanced by our single, integrated grain supply chain.

Buying from Grain Pool is more efficient than buying from a trader as it cuts out the middle man.

An additional bonus is that one of the largest importers of grain in Japan, which is also one of the few premium markets, is also a co-operative. So, they understand the value and benefits of co-operative.

Finally, as I indicated earlier, we are working to establish a direct connection between our international customers and our grower-shareholders so there is a better and more direct understanding of the requirements of the market.

The bottom line, of course, is that there are better returns to our grower-shareholders.

### Conclusion

*In conclusion then.*

- The 70-year journey for CBH has been challenging.
- Our merger with the Grain Pool has broadened our focus along the supply chain, which has brought with it greater opportunities and challenges, particularly global ones.
- The future for CBH is bright. We are working hard at building and shaping our organisation to one that is more understanding of the needs of our global customers, and we are seeking ways to maintain and strengthen these relationships.
- It is through this process that we can be sure of securing enhanced value opportunities for our growers.
- Looking after our members will ensure the sustainability of the Western Australian grain industry and the relevance of CBH through the 21st Century.

Thank you and I will be pleased to clarify any issues I have raised or answer any questions you may have.